



# ECONOMICS



## LESSON 2



By

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# ECONOMICS

## LESSON II.

### Production.



WE have already defined Political Economy as the science of the production, distribution and consumption of wealth. It has, therefore, three great departments. Of these three, production is naturally the first to be considered. In point of time, at least, it must precede distribution and consumption.

Production may be defined as the creation by mankind of values or utilities (those utilities which are created by man are limited in quantity, and thus always possess value). These values or utilities may be created in a number of different ways.

In the first place, production may consist of a re-arrangement of particles of matter, resulting in the creation of what some economists call **form-utilities**. This kind of production takes place in the case of agricultural products, where the particles of matter which were useless to man as long as they remained in the soil, become useful to him when they are transformed into plant tissue and are thus rendered available for food. So, too, a form-utility is created when useless ore is changed into useful metal by smelting.

Secondly, production may consist of a transferring of matter from place to place, or what we may call the creation of **place utilities**. An instance of this is found in the transportation from the Niagara Peninsula to Toronto and other cities of surplus fruit which would otherwise rot uselessly upon the ground. The creation of place-utilities occurs whenever farm produce is increased in value by transportation to the cities, or whenever manufactured articles are increased in value by transportation from the city to the farm. All our transportation agencies, railway companies, street car companies, express companies, etc.,

are engaged in the creation of place-utilities. These companies employ a considerable portion of the working population of the country, and these workers are just as much producers as are the agriculturists who actually raise the fruit or other products on their farms.

Next, production may take the shape of the creation of **time-utilities**. These come into existence whenever some perishable article which is of little or no value at some times in the year is artificially stored away and preserved until it becomes scarce and in much demand, and consequently acquires a high value. The most familiar instance of this is the case of the ice-harvest. The ice is cut when it possesses little or no value, preserved artificially, and sold at a time of year when it is scarce and possesses great utility and consequently considerable value. The cold storage plants for keeping meat, butter, eggs and other perishable commodities in good marketable condition, are another instance of production by the creation of time-utilities.

Lastly, production may take yet another form—the creation of **possession-utilities**—the transferring of goods from a person to whom they are of little utility to some one else in whose eyes these same articles have a greater utility. The grocer who sells vegetables is just as much a producer as the farmer or market-gardener who grew them, since he creates a possession-utility by transferring these goods to the person to whom they have greatest utility—the ultimate consumer.

It is necessary, therefore, for the student to rid himself of the popular idea that only the farmer, the lumberman, the miner and the fisherman, the men engaged in producing directly from nature, in so-called primary production, are actually producers. In reality the manufacturer who produces form-utilities, the railway man who produces place-utilities, the cold-storage man who produces time-utilities, and the merchant who produces possession-utilities are just as truly producers, and their services are just as essential to the well-being of society as those of the

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agriculturists. A strike of all those employed in transportation would be just as disastrous to the community at large as a strike of all agriculturists.

But what about professional men—the doctor, teacher, preacher, lawyer, etc.? They are not, strictly speaking, producers, because they do not produce any exchangeable utilities. Their mission is on a different plane from the economic. It is primarily to perform services of different kinds for the man himself, rather than to produce articles for his consumption. These services will probably tend to increase the productive power of the persons for whom they are performed, and may thus be said to be productive in an indirect and secondary way—**quasi-productive**. But this increase of the productive power of the doctor's patient or the teacher's pupil or the pastor's parishioner is only incidental, and is not the main object of the healing or the teaching or the preaching. Consequently the doctor, the teacher and the preacher are not primarily, though they may be and usually are, incidentally producers—not of wealth, but of the personal-wealth residing in the persons of their patients or pupils or parishioners.

### **Production Never the Creation of Matter.**

It must always be remembered that no human being can create matter. Matter, the physicists tell us, is indestructible; the total amount of matter in the universe is a constant quantity; it can neither be increased nor diminished. All that man can do is (1) to change the form of matter—form utility; (2) to change the position of matter—place utility; (3) to keep matter in the same condition when it would naturally be changing—time utility; (4) to transfer the possession and ownership of matter from the person to whom it is less useful to the person to whom it is more useful—possession utility. In all of these ways matter may be made more useful to man; its latent possibilities of doing service to man are “led forth” (Latin *pro forth*, *ducere* to lead), and thus “production” takes place.



### Requisites of Production.

There are at least two things absolutely necessary to production—first, matter upon which to work; second, man's labour force working upon that matter, and bringing it into a more useful form. But that labour force needs to be supplied with tools and sustained by food in order to produce most efficiently, so that we may say that something else than matter and labour is required in the higher branches of production at least. The first two requisites of production—called primary requisites—are generally known to economists as land and labour; the last mentioned requisite—secondary requisite—necessary for all but the most primitive kinds of production, is known as capital, which may be defined as the product of past labour used to subserve the process of future production.

Capital must not be confounded with money, which is only the medium by which capital is transferred from hand to hand. Money of itself cannot aid in production, and has therefore no claim to share in the product. If you put \$1,000 in a manufacturer's safe, while forbidding him to use the money in his business he will not be able to pay you interest on it. If you loan him the money to use in his business, e.g., in buying new machinery, paying wages, he will be ready to pay you interest on it. Your loan of the money transferred to him the purchasing power which the possession of that money gave to you. You waived your claim in favour of the manufacturer, who was consequently able to employ in reproductive ways the commodities purchased with your money, and could thus afford to return you your money with interest at the end of the year. You really loaned him purchasing power, and at the end of the period he was able to return to you a greater purchasing power because of the profit he had made by means of the purchasing power that you had lent him.

Each of these three requisites of production—land, labour and capital—deserves careful study from anyone who aspires to a knowledge of economics. In the first

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place, let us consider the various facilities which nature provides for the carrying on of production. These are included under the general term Land.

### **Land.**

These facilities consist primarily of land and water, the former of which produces the great bulk of food products and minerals, while the latter affords by far the cheapest means of transportation. It also produces an important part of the world's food supply in the shape of fish. Some day, when its resources of animal and plant life become more necessary to mankind on account of the increasing population of the world, its possibilities will no doubt be exploited, and the sea may conceivably become the greatest source of the world's food supply, as Jules Verne foretold in "Twenty Thousand Leagues Under the Sea."

Secondly, the term land includes the motive powers used by the manufacturer, for instance coal and water-power. For a manufacturing country, an abundant supply of good coal, such as exists in England, or an abundant supply of available water-power, such as exists in Canada, is an asset of incalculable importance, enabling these countries to undersell competitors who have no such cheap and abundant motive power.

The economic term "land" includes, therefore, all that is ordinarily meant by "natural resources." Now the prosperity of our nation or any other depends very largely upon the amount of production made possible by the natural resources of the country—its forest, agricultural and mineral wealth, its fisheries, and its coal and water-power. National greatness must be based on economic prosperity, and the first requisite for economic prosperity is a generous outfit from nature. Let us, then, consider briefly the natural resources of Canada, taking stock, as it were, of our national estate.

### **Agricultural Possibilities.**

Canada is one of the largest countries in the world, and although a large part of its territory is too far north to be



of much use for agriculture under present conditions,\* there still remains an enormous area available for the agriculturist. Of the vast area of the Dominion a comparatively small portion—roughly 100,000 square miles, or 3% of the whole—was occupied in 1901, and rather less than half of this improved. The land under crop, which amounted in 1901 to 19,763,000 acres, in 1912 had increased to 32,449,000 acres, an increase of 64% in eight years. The agricultural product in 1912 had an estimated value of \$512,000,000 in field crops alone, or about \$15.75 an acre:

Although this yield is a large one, nothing can be clearer than that Canadian agriculture is still in its infancy and may be enormously increased when the working population of the country is increased, and electric power applied in agriculture as well as in factory industry.

### Forest Wealth.

The forest lands of Canada have been estimated to cover a total area of 1,250,000 square miles; another estimate gives the amount of merchantable timber in a small fraction of the total forest area as 192,000 million feet. On the other hand, Dr. Fernow, the head of the Faculty of Forestry of the University of Toronto, says the commercially valuable forest land is less than 500,000 square miles.

The actual value of forest products was estimated at \$182,000,000 in 1912 and is still increasing. By a careful conservation of our forest resources such as is now being agitated for, we may expect that our forests may be made to yield considerable permanent net returns to the state as they do in European countries. It is most important to the whole country from the physical point of view also

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\* Note—We say "under present conditions." It is absolutely impossible even to conjecture how greatly the productive area may be extended and the yield increased by the scientific breeding of plants on the principles discovered by the Abbé Mendel, and now universally accepted by scientists.

that large forest areas be maintained, because of the beneficial effects of the forest upon the temperature, rainfall and drainage of the country.

### **Fisheries.**

The value of the Canadian fisheries has within the past few years averaged about \$30,000,000 annually. This will no doubt be increased when the fisheries of Hudson's Bay and the northern gulfs and inlets are more systematically developed.

### **Minerals.**

The mineral wealth of Canada is incalculable. If the student will refer to maps 6 and 7 in the Atlas of Canada, published by the Dept. of the Interior in 1906, he will realize how small a portion of the Dominion can yet be said to be scientifically surveyed. Yet these maps show an enormous coal area surveyed (65,000 square miles in Alberta, and smaller areas in British Columbia, Nova Scotia, New Brunswick and Saskatchewan). Iron ore is mined in Nova Scotia, copper in Ontario, gold in Nova Scotia, Ontario, British Columbia, and the Yukon; silver in Ontario; nickel (of which the Dominion has a monopoly in America) in the Sudbury district of Ontario. The mineral production has been rapidly increasing from 10½ millions in 1886, to 49½ millions in 1899, 60½ millions in 1904, 80½ millions in 1906, 90½ millions in 1909, 105 millions in 1910, 133 millions in 1912.

### **Coal and Water Powers.**

The development of the different coal deposits and the abundant water power are in Canada, as in other nations, greatly increasing the production of manufacturers. Canada, backed by her enormous water power, bids fair to become a first-class manufacturing nation as soon as she has sufficient labour at command. Her available water power is officially estimated at 25,692,000 horse power, less than 2% of which is developed. This difference between the possible and the actual water power in use makes one

feel that the country is still at a very early stage of its industrial development.

The growth of these manufactures may be indicated briefly by the census returns, although these do not furnish a proper basis of comparison, owing to the fact that the regulations governing the census-takers were different in the various enumerations. According to the census of 1871 the value of manufactured products was \$221,600,000; 1881, \$309,676,000; 1891, \$469,850,000; 1901, \$481,050,000; 1906, \$718,352,000; 1911, \$1,166,000,000. In each case the figures relate to the year preceding the census.

### Labour.

No matter how great the natural resources of a nation may be, they are of little avail to increase its positive riches until they have been exploited by man\*. They resemble the tools in the workman's hand, which are of great assistance in enabling him to produce what he could not otherwise produce so well, but are quite useless without him. These natural resources are not wealth in themselves any more than is a man's power to labour when he is unable to obtain work. For wealth to be produced, it is necessary that man's labour be applied to the natural resources.

Labour is defined as effort, bodily or mental, put forth by human beings, not exclusively for the sake of the pleasure immediately associated therewith, but partly or wholly with a view to the attainment of some ulterior object.

Labour as stated in our definition includes both mental and physical effort, though in ordinary language "labour" refers usually only to physical toil. In econo-

\* Note—The student may illustrate this by comparing (let us say) the area included in Canada and the United States of 1610 with the Canada and United States of 1910. In 1610 these enormous countries had even greater natural resources than at present; yet they afforded only a miserable subsistence to 1,000,000 Indians, as compared with the ample provision which they make to-day for a population one hundred times as great.

mics the cabinet minister and the college president are labourers, because their efforts enable men to produce to better advantage than formerly. The cabinet minister aids production by administering the law justly and securing to each his own property—a great stimulus to hard work. The college president is a labourer, because his is the task of finding out and putting into operation the curriculum best suited to the needs of his students. If he has been able to gauge correctly the demands which society will be likely to make on his graduates and to produce men who will measure up to those demands, he will have rendered a very real service to the community. Perhaps no one is ultimately more productive than the man engaged in developing the physical and mental qualities of mankind, though from the strict economic point of view he is only quasi-productive, because he produces only personal-wealth.

Labour is performed, not for the sake of the mere performance itself, but for some ulterior end. Thus playing a game is not usually labour, but exercise in the gymnasium is. That is usually undertaken for the ulterior end of preserving one's health. In the game on the other hand, one forgets that he has a body to develop, and simply enjoys himself.

The ulterior end of labour is the production of utilities wherewith the worker may secure other commodities sufficient for his support and that of those dependent upon him. Labour in itself is irksome, but its irksomeness is borne because of the advantages which accrue from it to the worker. The utility of the commodities to the worker outweighs, up to a certain point, the disutility of the labour. But in every process of production a time will come when the worker's weariness is such that the disutility of the labour will outweigh the utility of the commodities gained by his labour. Then, if he is free to do so, the worker will cease to labour.

The complete body of the producers of a country—agriculturists, transportation men, manufacturers, mer-

chants, etc.—may be described from the economic point of view as the labour force of the country. Wealth is produced by the labour force of a country acting upon the natural resources of that country. The amount of wealth which can be produced will depend largely upon the amount of that labour force, its intelligence, its technical skill and the organizing ability of those who are in control of it, as well as upon the motive power and facilities of transportation, etc., afforded by the natural resources of the country. As natural resources are a constant or even a decreasing quantity, we must increase our labour force in numbers, strengthen it in intelligence and technical skill and improve its organization, in order to effect an increase in its product. As in a new and thinly-settled country like our own, natural increase is not sufficient to provide for the development of the country, it is necessary to encourage immigration, in order that the wealth of the country may be increased by increasing the number of its producers.

Let us consider briefly the labour force of our own country. The actual number of agriculturists in 1901 was 545,000 with 73,000 wage earners or hired men. The agricultural labour force was thus according to the statistics 618,000 persons (the farmer's sons and daughters living and working at home apparently not included). The product in 1901 was, according to the census figures, \$364,900,000, and in 1909 was estimated at \$700,000,000. In manufactures in 1901, 339,000, including office employees, were engaged with a total gross product of \$481,000,000, and a net product (with cost of raw and partly manufactured materials deducted) of \$214,500,000; in 1911, 515,000 were engaged in manufactures, with a gross product of \$1,166,000,000 and a net product of \$564,500,000, an increase of 52% in the number of the wage earners and of 163% in the value of the net product. To put it in another way, the average wage earner or salaried office man produced in 1901, goods to the value of \$632; in 1911, goods to the value of \$1,096. While the number of wage



earners was rapidly increasing the product of the average wage earner was increasing still more rapidly, showing an increase of \$464 or 73% during the decade. This increase is due to two things; increased technical skill and better organization. It, like all other increases in monetary values during the same period, is to some extent apparent rather than real, on account of the higher prices prevailing in 1911 than in 1901.

### Capital.

The amount of product, however, does not depend alone upon natural resources and human labour. Let us illustrate this from the case of Robinson Crusoe. Suppose he had landed on the desert island without tools of any kind—without axes, guns, seeds, food, or even a pocket-knife. What would have been the result? He could not have got along nearly so well as (in the book) he actually did. He might have starved to death. In any case, though the natural resources of the island might be the same, and the qualities of the individual man Robinson Crusoe the same, yet his production of wealth would be much less, on account of his lack of tools, seeds and food. With these, he could make a clearing, plant his seed, and wait for harvest; without them, he could only pick up a precarious living by trying to catch shell-fish—sometimes succeeding, more often failing in his efforts. Novelists who want to represent their heroes as wrecked on desert islands, therefore, nearly always arrange for food, seeds, boxes of tools, clothes, etc., to be washed on shore from the wreck. These become the means by which the hero civilizes the island and its inhabitants, so that in the end we have a civilized and prosperous settlement.

A group of men, then—a little colony newly established—naturally requires help from older and wealthier nations. Thus the United Empire Loyalists, on coming from the States after much of their property had been confiscated, found themselves unable to cope unaided with the rigours of the Canadian climate, and were maintained

for the first year or two of their residence in this country by the British Government, which appropriated over \$15,000,000 for the purpose of supporting the exiles and providing them with seed, so that they should be able to clear the forest and raise crops of their own.

This is a universal experience. In order to produce effectively, it is necessary that the producer shall be provided with tools and with subsistence until his product is realized. These are his capital, which we may define as the product of past industry applied to the work of subserving future production. A young man, we will say, works on a farm for several years after he reaches the age of twenty-one, saves \$1,000, then goes west and takes up a homestead. In such a case, he has practically the whole of the \$1,000 as his capital invested in his new venture; he buys horses and implements with it and puts up a shack. By the aid of this \$1,000 he finds himself in a vastly more advantageous position than are those of his competitors who try to begin farming without a cent. Because he has better tools and is in no immediate need of the necessities of life, he can produce more than the man who has a smaller capital. In fact, the latter will, if he can, borrow money in order to use it in his business. It brings him so many advantages, that he is glad to pay 6% or even 8% interest for it. \$500 spent judiciously in machinery and tools will be worth more to him than \$30 a year—the interest on \$500 at 6%.

Nations are just like individuals in regard to the possession or non-possession of wealth. The old, long established nations, are wealthy; they are able to provide all the capital required to develop their own industries and, in addition, to lend to other countries. On the other hand, the newer countries of larger area are unable to save enough capital from current consumption to develop their resources. Capital is, therefore, scarce and dear among them; the rate of interest is high, just as in our North-West the rate of interest on farm mortgages is higher than in Ontario, because there is so much less capital there

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seeking investment, and so much greater a demand for it to assist in developing the country. So too in Ontario and Eastern Canada, capital is scarcer than in England, is more in demand, and thus bears a higher rate of interest. The West is poorer than the East, and the East is poorer than England, just as the young man who has but lately begun to earn his own living and has had but little time to save, is poorer than his father, who has been saving throughout his life.

Canada, then is poorer than England—perhaps not per capita, but absolutely. Canadians have a great undeveloped estate, and they are, as we have seen, bringing in hundreds of thousands of people of every nationality to develop their natural resources. These people, however, must be maintained during the long period before the benefits of their labour begin to be realized. Canada has to borrow a great deal of the capital required to maintain them and to provide them with the tools necessary for efficient production. Our federal, provincial and municipal authorities, our railway and street car companies, and our manufacturing enterprises go very largely to other countries to borrow the money necessary for the development of Canadian resources. This procedure tends to lower the rate of interest in Canada, because the imported capital comes more or less into competition with that which is saved within the country itself; it tends to increase the interest rate in England, because some of the extra supply is taken away from the English money market. Economists think that the rate of interest tends gradually to approach an approximate equality in enterprises of equal stability the world over. Wherever the laws of a borrowing state are just and fair to a foreign creditor, the capitalist will probably invest, not caring where his capital is employed, but studying only how to combine the most perfect security with the highest rate of interest.

The greatest lender of capital in the world is Britain. Her comparatively small area has been fairly thoroughly

developed, and the greater part of the capital annually saved by her people goes abroad for investment in foreign countries and British possessions. Consequently we find the British people keenly interested in the affairs of every country of the world, since British creditors have capital invested in them all. France occupies second place as an investing nation, largely on account of the saving habits of her people. The United States too are beginning to invest a good deal of capital abroad, a large part of which has come to Canada.

This country has, within the past few years assumed a rapidly increasing prominence as a field for investment. The stability of its government, the essential justice of its laws, combined with its great natural resources and its nearness (as compared with the other great new countries, such as Argentina, Brazil, South Africa and Australia) to the markets of Europe and the United States, have caused it to be regarded as a most desirable country for investment. European and American investors can easily come over and see the properties in which their money is involved. British and foreign investment in Canada has, therefore, been rapidly increasing. Investments are made in our national and provincial debts, in our municipal debentures, in our railway and industrial stocks. (The president of the G.T.R. was lately responsible for the statement that not \$1,000 of the stock was held in Canada. In a hundred other enterprises the same or nearly the same thing is true.)

The total amount of British and foreign capital invested in Canada up to April, 1911, has been estimated by Mr. F. W. Field of the Monetary Times at \$2,416,000,000.\* Of this enormous sum, Great Britain alone has supplied more than three-quarters—\$1,860,000,000. Americans have invested \$417,000,000 in this country, Frenchman, \$78,000,-

\* At the end of 1913, according to Mr. Field, Great Britain had about \$2,500,000,000, and the United States \$637,000,000 invested in Canada.

000; Germans, \$33,000,000 and the citizens of various other European States from \$25,000,000 to \$30,000,000.

If the average rate of interest paid on these outside investments is 5%, then Canada pays annually to her British and foreign creditors, interest amounting to about \$121,000,000—a sum greater than the total annual revenue of the country, and a heavy burden for a population estimated at 7,150,000, amounting to over \$85 annually for each family of five. The reason for our having incurred such a heavy liability is simply that our gain from the development of our country is so enormous that we are able to pay this vast sum as interest and still make a large profit for ourselves by means of the borrowed funds. Sooner or later our country will be so developed by the aid of this capital from outside, that we shall easily be able to pay off our foreign creditors, principal and interest.

Of course, besides all this outside capital, there is a great deal of native capital invested in the country. If I earn \$1,500 a year and spend only \$1,200, I save \$300 a year. Now if I put that \$300 to work to assist in future production, either in my own business or that of others, I will get a return for its use. If I put it into the savings department of a bank, the banker will loan it to the merchant or the manufacturer, who needs it in his business, paying me 3% on the money, and (in practice) allowing me to withdraw it at any time, so that it is almost as good as cash to me. If instead of putting it into a bank I prefer to invest in municipal or industrial bonds, I can get from 4% to 6% on my money. Or again I may prefer to invest my savings in real estate. No one can estimate how much capital Canadians have invested in Canada, but there is no doubt that it is rapidly increasing, though not, of course, so rapidly as to provide the funds required for the phenomenal development of the country. The deposits in the chartered banks have grown from \$390,000,000 in 1902, to \$1,006,000,000 at the end of 1913, increasing 150% in eleven years. Current loans in Canada in-



creased in the same period from \$303,000,000 to \$822,000,000. These are about the only Canadian investments in Canada for which we have clear and definite statistics. It is quite impossible to give figures for Canadian investments in other directions—in stock, real estates, etc., but there seems no room to doubt that these have grown at least as fast as have the bank deposits.

Perhaps no other country in the world, with the possible exception of Argentina, has shown an equal rate of increase in production during the past decade. Canadians are justly proud of this remarkable record, and are hopeful that the next decade will show even greater progress than the last. The enormous natural resources which still remain undeveloped, provide the raw material for a marvellous increase of production, but whether the glowing anticipations of to-day will be realized, depends on whether Canadians will be able to go on increasing their labour force in numbers (by natural increase or by immigration), while at the same time they do everything possible to improve its quality. They will also require to obtain either from Canadian or from foreign investors the capital necessary to enable their labour force to work to the best possible advantage.

N.B.—Students may, for supplementary reading, refer to Gide's Principles of Political Economy, book 1; Marshall's Economics of Industry, book 4; Seligman's Principles of Economics, chaps. 19-21. For the purpose of tracing the growth of Canada, they would do well to secure the last issue of the Canada Year Book through their local M.P., and consult the various tables, especially those showing the increase in agriculture and manufactures and the increase in the population of the Northwest Provinces between 1901 and 1906. The latter figures may be compared with the census returns of 1911.

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**EXAMINATION QUESTIONS****ECONOMICS.****LESSON 2.**

1. How would you prove that the merchant is a producer?
2. Is the professional man a parasite upon society? Give reasons for your answer.
3. Is the banker a producer? What is his function in the process of production?
4. What are the requisites of production? Write a brief note on each of them.
5. Give a brief account of the natural resources of the Dominion.
6. Define "labour." Is a game of baseball labour?  
(1) To the amateur? (2) To the paid professional?  
(3) To the spectator? (4) To the journalist who is reporting the game? State the reasons for your answers.
7. Show by statistics that the productive efficiency of the average workman is on the increase.
8. What benefits does a young country receive from immigration? Are there any counterbalancing disadvantages?
9. What is capital? Distinguish between it and money. Would money have been capital to Robinson Crusoe? Would seeds?
10. Why are men ready to pay interest for the use of money?
11. Suggest reasons why British investments in Canada should be so much greater than foreign investments.
12. When you put your savings in a bank, what enables the banker to pay you interest on them?